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**HOW PSYCHIC DISTANCE AND OPPORTUNITY PERCEPTIONS AFFECT
ENTREPRENEURIAL FIRM INTERNATIONALIZATION**

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Abstract

Psychic distance, now established as an individual perceptual construct, is so far a partial explanation of internationalization processes of entrepreneurial firms. Opportunity in foreign markets, although considered important, has so far been an assumption rather than explored as an explanatory factor in internationalization theories. Through qualitative data from technology entrepreneurs from New Zealand this study considers opportunity, like psychic distance, as an individual perceptual construct and posits that a combination of opportunity and psychic distance perceptions better explains entrepreneurial internationalization action/intention decisions. It proposes an explicit combination as “opportunity-distance quotient” that signifies a shift from psychic distance obstacles based explanations to an opportunity-psychic distance interaction based exploration of entrepreneurial internationalization. Limitations of the study and further research are discussed.

INTRODUCTION

With an increasingly globalized world, internationalization of firms has been attracting attention in strategy, marketing as well as entrepreneurship research over the last few decades. *Psychic distance*, as the apprehension regarding foreign markets, explained gradual internationalization of firms (Johanson & Vahlne, 1977; Madsen & Servais, 1997; Conway & Swift, 2000). This stages conception was also metaphorised as “rings in the water” foreign expansion (Bilkey & Tesar, 1977). The understanding of psychic distance to foreign markets was mainly based on cultural difference of the foreign country with the home country of the internationaliser. The concept has thus often been linked to Hofstede’s research on cultural differences with managers in a large multi-national, multi-location firm (Hofstede, 1980). However, although the parsimonious nature of psychic distance kept the concept current in firm internationalization literature, there have been contrary evidence (Holzmuller & Kasper, 1990) and criticism that psychic distance had insufficient explanatory power (Stottinger & Schlegelmilch, 1998, 2000). More recently, psychic distance has been argued as an individual level construct rather than a country level one (Sousa & Bradley, 2006), and as being perceptual in nature rather than an exogenous construct (Prime *et al.*, 2009). Further, the role of opportunity perceived in foreign markets, earlier assumed more as a backdrop to internationalization research, is highlighted as important in recent international entrepreneurship literature (Oviatt &

McDougall, 2005b; Zahra, 2005; Zahra *et al.*, 2005). Following from the literature on entrepreneurial opportunity recognition, entrepreneurial cognition and international entrepreneurship (Johanson & Vahlne, 1993; Baron, 1998; Shane, 2000; Acedo & Florin, 2006; Johanson & Vahlne, 2009; Kirzner, 2009), opportunity too is considered a perception specific to the individual internationalizing entrepreneur in this paper. The paper proposes that opportunity perception needs to be explicitly considered along with psychic distance perception of entrepreneurs to understand their internationalization decisions. With qualitative data from entrepreneurs engaged in foreign markets it builds a new construct that combines the effects of psychic distance perception and opportunity perception to propose a better explanation of entrepreneurial internationalization decisions.

The paper first briefly reviews the psychic distance concept in extant internationalization literature, including its use of and subsequent demarcation from Hofstede's (1980) concept of cultural distance between countries. It also outlines the opportunity perspective in entrepreneurship and international entrepreneurship literature. It examines in-depth qualitative data from six internationalizing technology entrepreneurs from New Zealand with respect to four different foreign markets: Australia, the closest foreign market for NZ entrepreneurs, the newly emerged eastern market of China, and the traditional high technology western markets of the US and the UK. The analysis of the qualitative data leads to quantifying a combination of psychic distance and opportunity perception levels and is presented as a construct that can be explored further and tested in future research. This combined construct is proposed as the "opportunity-distance quotient" that better explains internationalization action/intention decisions. Further questions that arise from the proposed perspective and future research possibilities as well as limitations of the study are discussed.

LITERATURE REVIEW

Psychic Distance in Internationalization Literature

The process/stages models of internationalization were based on the elegant logic of incremental learning through 'advantage cycles', ie, a new advantage emerging from the firm exploiting an old one, and foreign expansion through 'establishment chain', ie, a firm's incremental commitment from no initial exports position to setting up a production base in a foreign market (Johanson & Vahlne, 1993). These arguments have the concept of 'psychic distance' at their core. However, while some studies reported a greater tendency of internationalizing firms to

gradually move to setting up wholly owned subsidiaries, i.e., to a high commitment or fuller control foreign market presence (Johanson & Vahlne, 1977; Davidson, 1980; Gatignon & Anderson, 1988), a contrary propensity was also observed with firms starting with full control foreign market operation and subsequently sharing control as operations get established (Daniels *et al.*, 1976). Furthermore, Erramilli (1991) reported service sector firms following a U-curve in foreign market commitment over time, and O'Grady and Lane (1996) in their Canadian study highlighted a 'psychic distance paradox' where Canadian firms were surprised to find greater than anticipated obstacles entering the US. Such contrary results have not been reconciled. Relatedly, scholars have posited that applying the Hofstede (1980) 'cultural distance' surrogate for psychic distance estimates was flawed (Dow, 2000; Dow & Larimo, 2008)) as in studies like Kogut and Singh's (1988). Little agreement on the subject emerged (Stottinger & Schlegelmilch, 2000; Dow & Karunaratna, 2006; Brewer, 2007). Other conceptions were proposed to play a role in the internationalization process such as networks, where an internalising firm need not possess all the resources and capabilities that it may access through relationships and "insidership", i.e., by belonging to a network and arguably overcoming psychic distance concerns (Chetty & Holm, 2000; Johanson & Vahlne, 2003, 2009; Ojala, 2009). This provides an added dimension to the understanding of psychic distance beyond experiential learning of foreign markets in the internationalization process.

The impact of culture on internationalization decisions studied by Sousa and Bradley's (2005, 2006) clarified the difference between psychic distance and cultural distance. Sousa and Bradley (2005) and Stottinger & Schlegelmilch (2006) argued, psychic distance as an exogenous construction dependent on differences between markets on dimensions external to the entrepreneur or the firm, and psychic distance indices developed based on factual indicators such as publicly available statistics on economic development (Clark & Pugh, 2001; Dow & Karunaratna, 2006; Brewer, 2007), were inadequate. Importantly, they established psychic distance as an individual level construct and different from the Hofstede country level construct of cultural distance, explaining why psychic distance concerns must vary across entrepreneurs for the same foreign market. An individual level construct is less prone to what Shenkar (2001) calls the 'illusion of symmetry' in international business distance research. Prime *et al* (2009) have further clarified the individual and perceptual nature of psychic distance. These developments also led to the suggestion that "a more qualitative approach to psychic distance

may represent a way forward” (Stottinger & Schlegelmilch, 1998). Several qualitative studies followed, some with empirical data, that have contributed to the understanding of the perceptual nature of psychic distance (Sousa & Bradley, 2005, 2006; Ruzzier *et al.*, 2007; Perks & Hughes, 2008; Sousa & Bradley, 2008; Prime *et al.*, 2009; Lamb *et al.*, 2011). Various qualitative approaches also assessed psychic distance differently, for instance, through examining business and cultural differences (Prime *et al.*, 2009), through antecedent social ties (Ellis & Pecotich, 2001), and individual openness-versus-conservation value perspectives (Sousa & Bradley, 2006). Qualitative studies too have not established a common operationalization of psychic distance except that it needed to be assessed as a perceptual individual construct.

Defining psychic distance for this study.

Psychic distance as an individual psychological perception of difficulty in doing business in a foreign country market is expected to differ across entrepreneurs. Following several scholars who have advised focus on the entrepreneur for examining early internationalization decisions by entrepreneurial firms (cf. Jones & Coviello, 2005), and learning from the definitional debates about psychic distance, this study considers an overall perceptual definition of psychic distance at an individual level. Thus, it defines an entrepreneur’s psychic distance with respect to a foreign country market as *the entrepreneur’s perception of overall difficulty encountered or that would be encountered in doing business in that foreign country market*. On the one hand, this definition avoids the summary dependence on factual indicators that may influence psychic distance but are insufficient in assessing individual level perception and, on the other hand, it also frames the exploration of psychic distance in a qualitative perspective. Importantly, defined as the ‘overall difficulty perceived’, it is easily understood by respondent entrepreneurs and conveys the idea of the concept without confusion, enhancing the trustworthiness of the qualitative data that was gathered as detailed in the following section.

While the individual and perceptual nature of psychic distance is a recent topic of interest in internationalization research, it also invites the question whether psychic distance perception by itself can explain entrepreneurial intention to internationalize. Advances in business and growth enablers like transportation, information and communication technology (cf. Oviatt & McDougall, 2005a) have allowed entrepreneurs to overcome distance and time delays and reduce time-to-market following opportunities in ways that were likely not anticipated by psychic distance based incremental expansion understanding of internationalization. Johanson and

Vahlne agree in their later writing that opportunity pursuit in foreign markets is an important driver for entrepreneurial internationalization and opine that ‘short’ psychic distance to foreign market is “insufficient condition for identification and exploitation of opportunities.” (Johanson and Vahlne, 2009: 1425). This prompts exploration of the role of opportunity pursuit, along with psychic distance concerns, in the context of firm internationalization as briefly discussed below.

Opportunity Perspective in Entrepreneurship and International Entrepreneurship Literature

The evolution of entrepreneurship literature over the last century or so has shed light on the drivers of entrepreneurship. Entrepreneurship has been explored variously as creative destruction processes that bring in ‘new combinations’ of goods/production methods/markets/organization (Schumpeter, 1934 [1911], 1942), through personal traits of the entrepreneur as alertness to opportunity (Kirzner, 1969, 1973), achievement motivation (McClelland, 1961), willingness to bear risk (Kihlstrom & Laffont, 1979) and tolerance of ambiguity (Schere, 1982). Influenced by behaviourist theorists like Thorndike (1917, 1966), Hull (1943) and Skinner (1953, 1974) entrepreneurship was also explored through entrepreneurial behaviour, as different from traits, by scholars such as Gartner (1988), Timmons and Spinelli (Timmons, 1978; Timmons & Spinelli, 2004) arguing for the act of new venture creation in a behavioural vein. Scholars like Cartland *et al* (1988) proposed a combination of trait and behaviour while an entrepreneurial cognition perspective was led by Baron (1998), Palich & Bagby (1995) and Ward (2004) among others. Through this a fair agreement emerged that entrepreneurial action is centred around entrepreneurial opportunity, explored and reviewed by several scholars (Kirzner, 1969; Gaglio & Katz, 2001; Ardichvili *et al.*, 2003; Eckhardt & Shane, 2003; Gartner *et al.*, 2003; Sarasvathy *et al.*, 2003; Short *et al.*, 2010), and that the entrepreneurship process involves the nexus of two phenomena, i.e., of lucrative opportunities and enterprising individuals (Venkataraman, 1997; Shane, 2003). Thus entrepreneurial opportunity is established as central to entrepreneurial action. Learning from mainstream entrepreneurship literature, then, it can be argued that lucrative offshore opportunity the entrepreneur perceives is central to entrepreneurial firm internationalization action.

Suggestions were made in the international entrepreneurship literature that for better understanding of entrepreneurial firm internationalization “it is necessary ...to draw upon the literature on entrepreneurship” (Madsen & Servais, 1997: 579); to use the "entrepreneur concept"

and "voluntaristic" strategies to understand "dramatically changing internationalization patterns" for small firms (Andersson, 2000: 76). This enhanced the stages focus in early international entrepreneurship literature where opportunity recognition was taken more as an assumption for internationalization of business (Johanson & Vahlne, 1993, 2009; Zahra & Korri, 2005). Johanson and Vahlne, responding to various criticisms of the stages theory, agree that "Internationalization has much in common with entrepreneurship" (Johanson and Vahlne, 2009:1423); "(we) recognize now that we probably did neglect the opportunity dimension of experiential learning" (ibid: 1418) and "consider opportunities to be the most important element of the body of knowledge that drives the (internationalization) process" (ibid: 1424 – parantheses added).

Håkanson and Dow (2012), analysing data over 25 trading nations, found trade had become less sensitive to psychic distance over 1962-2008, and Ellis (2008) showed Chinese exporting firms' chose USA, Germany, Canada and France over Taiwan, Indonesia, Thailand and Vietnam, quite contrary to an internationalization logic based on gradual overcoming of cultural differences. This is found increasingly the case in the technology sector with entrepreneurs exploiting cost reduction gains from technology early and transcending cultural differences to explore opportunity further afield in less familiar foreign markets (Ohmae, 1989; Hara & Kanai, 1994) and that the opportunity from the rise of economies such as China and India demand increased focus from SME's on these psychically distant markets (Ratten *et al*, 2007: 375).

Crick and Jones find that growth opportunities are more strongly related to market selection of technology based entrepreneurial firms than psychic distance (Crick & Jones, 2000). With evidence contrary to received theory discussed earlier, it is important to focus on internationalization actions at the level of the entrepreneur and to examine the processes by which entrepreneurs "take on risk and manage it" (Shrader *et al.*, 2000). However, in similar situations, different people/ entrepreneurs perceive opportunity differently (Kirzner, 1989; Shane, 2000). Krueger, Fitzsimmons, Douglas and colleagues explore relationships between individual perception of feasibility and desirability of entrepreneurial opportunity as antecedents of individual intention to act entrepreneurially (Krueger & Brazeal, 1994; Krueger Jr *et al.*, 2000; Fitzsimmons & Douglas, 2011). Therefore entrepreneurial opportunity, like psychic distance, is

also an individual perceptual construct and internationalizing entrepreneurs can be expected to have different opportunity perceptions with regard to a foreign market.

Summarising the discussion so far, an entrepreneur's psychic distance perception is understood to be individual in nature and thus varying across entrepreneurs for the same foreign market. Thus, on the one hand, the entrepreneur's perceived psychic distance may be a deterrent and, on the other, foreign market opportunities perceived by entrepreneurs may be the driver of internationalization action as "... the founder (of the firm) may not see national boundaries as an obstacle, but rather sees international markets as open, waiting to be exploited" (Madsen & Servais, 1997: 567). In today's globalising world, it is therefore insightful to explicitly consider a combined influence of opportunity perception as well as psychic distance perception of an entrepreneur with respect to a foreign market on the entrepreneur's decision to internationalize into that foreign market. This study examines how an explicit combination of the two individual level constructs might better explain entrepreneurial firm internationalization propensity than either of them separately can.

METHOD

Heeding calls to qualitatively examine the incidence of psychic distance and of opportunity perception in internationalization decisions (Boter & Holmquist, 1996; Stottinger & Schlegelmilch, 1998; Ellis & Pecotich, 2001; Perks & Hughes, 2008; Lamb *et al.*, 2011), a case study method was chosen as an appropriate way to conduct a qualitative inquiry to access the nuances of the entrepreneurs' perceptions. Case study research lends well to qualitatively examining complex phenomena connecting practices in natural settings and the data as interpreted via thematic analysis (Eisenhardt, 1989; Stake, 1995) and are conducted here as exploratory case studies (Yin, 2009). Multiple cases were chosen for the qualitative examination of the internationalization decisions with semi-structured interviews as the main source of data for both opportunity perceived in, and psychic distance perceived for, specific foreign markets. This follows Eisenhardt and Graebner's (2007) advice that with multiple case research that qualitatively examines intermittent, episodic and strategic phenomena rather than everyday phenomena like work practices, interview data becomes a highly efficient way to gather rich empirical data (Eisenhardt & Graebner, 2007: 28).

As a perceptual construct entrepreneurial opportunity is also recommended for qualitative study by Endres and Woods (2007) who review two complementary qualitative approaches, ie,

narratives and case histories, and interview techniques to describe personal mental models. The present paper follows the interview protocol to assess the psychic distance perception and the opportunity perception of the entrepreneur with regard to their internationalization decisions. Such qualitative perceptions are assessed on a scale according to the coding scheme developed as detailed below and checked back with the respondents. A quantification of the qualitative data then leads to a new construct of Opportunity-Distance quotient encapsulating how the two perceptions of opportunity and psychic distance influence entrepreneurial internationalization action/ intention decisions.

Case Selection

Six illustrative cases were selected for exploratory qualitative examination of internationalization behaviour across technology entrepreneurial firms of different sizes and ages and serving different product/service markets. With no established guidelines being available for selection of internationalized / internationalizing firms the following criteria were applied: a) firms were entrepreneurial firms, i.e., privately held and run by the entrepreneur owner/partner-manager since the study focused on entrepreneurial decision making in firm internationalization, and b) they had over 25% of their turnover from foreign markets, consistent with Prime et al's (2009) qualitative study of psychic distance. Appendix 1 gives the profiles of the entrepreneurs and the firms at the time of the study.

Of the six entrepreneurs, three were successful internationalizers (Merton-E1, Rubin-E3 and Bob-E4), one was unsuccessful in his internationalization initiative (Martin-E5) and was winding down, and two entrepreneurs were first unsuccessful in their internationalization attempt, but succeeded subsequently (Will-E2 and Mark-E6).

It has often been suggested that firm size and age have a positive impact on internationalization or foreign market performance. Firm age is often considered to reflect longer experiential learning, while industry sector has also been argued to influence firm internationalization (Boter & Holmquist, 1996; Andersson, 2004; Perks & Hughes, 2008; Prime *et al.*, 2009). However, the positive impact of size has been refuted and challenged in several studies (Bonaccorsi, 1992; Calof, 1994; Moen, 1999); and studies such as Halilem, Amara and Landry (2014: 30) found age to set in routines that became obstacles to internationalization for older Canadian SMEs. Therefore it was considered appropriate to select entrepreneurial firms in this study from a wide variety of firm size, age, sub-sectors within the technology industry, and

started/run by entrepreneurs with different lengths of business and foreign market experience having had a range of internationalization initiative outcomes from outright success to failure and to initiatives that failed first and subsequently succeeded. This potentially afforded a wide range of psychic distance perceived by high technology entrepreneurs and was “particularly suitable for illuminating and extending relationships among constructs” (Eisenhardt & Graebner, 2007: 27). This led to some non-intuitive but clear pattern recognition of the focal phenomenon in this study, e.g., in the high level of concerns expressed by some entrepreneurs for a traditionally familiar market such as the US.

In terms of cultural background, all the entrepreneurs were from the dominant Caucasian population of New Zealand. They were male, had grown up in New Zealand, and had had social exposure to the English speaking world and family ties with the UK. The common cultural background and ethnicity ensured that any *a priori* cultural distance with the foreign countries in the study due to ethnicity were the same for all the entrepreneurs. Similarly, technology firms are found to internationalize early (Jones, 1999; Loane *et al.*, 2004), all the entrepreneurs being engaged in high technology businesses also ensured that the variation in their perception of foreign markets was not due to large technology level differences between them. The selected entrepreneurs and their firms operated in different high technology field: two in different areas of software, one in high tech composite material in marine and one in nuclear physics equipment. This ensured the selected cases while being early internationalisers were sufficiently varied across high technology sectors to provide a theoretical sampling along the dimensions of interest, ie, high technology entrepreneurs’ opportunity perception and psychic distance or overall difficulty perception of doing business in foreign markets. The cases contributed to a ‘replication logic’ where each case serves as a distinct experiment (Eisenhardt & Graebner, 2007) and provides a basis for analytical generalization (Yin, 2009).

Data Collection and Trustworthiness

The verbal data were obtained from in-depth semi-structured interviews. All six entrepreneurs had attempted to do business with or enter some or all of the four foreign markets, the UK, US, China and Australia. The entrepreneurs were asked to describe their internationalization initiatives in the four foreign markets and their perception of opportunity and of difficulties with regard to entering and doing business in these markets. If an entrepreneur had not entered a market, he was asked whether he would do so, why and how, and if not why not.

Two interviews were conducted with each entrepreneur, each lasting one to one-and-a-half hours. The first was started with discussion of the industry and the origin of their own business, and went on to specific internationalization events with regard to the four markets chosen. The data were transcribed the same day in order to keep their freshness intact. The second interview started with the entrepreneurs scoring on a 5-point scale their opportunity and psychic distance perceptions for each of the four foreign markets. Then the transcription of the first meeting was validated with the respondent entrepreneurs as ‘member checks’ suggested by Lincoln and Guba (1985), Yin (2009) and Eisenhardt (1989). The researcher’s assessment of the entrepreneurs’ feedback was compared with the entrepreneurs’ own scores for necessary adjustments.

Following Ellis and Pecotich (2001) each country initiative of an entrepreneur was taken as an event and, even though the number of entrepreneur-respondents was limited to six, there were twenty-four events discussed. Fourteen of them were actual internationalization initiatives by the entrepreneurs in the specified markets and ten were potential events that were discussed in terms of perceived opportunity and perceived difficulty reflecting psychic distance, thus providing twenty-four data points in the study. Thus, the unit of analysis was an event taken as an entrepreneur’s internationalization attempt, actual or potential, in a foreign market, and embedded within the cases.

Triangulation of the rich personal interview data was achieved from other sources such as internal documents and emails from the companies, as recommended in Yin (2009) and Denzin (1978). In terms of the robustness of the data in qualitative inquiry ‘trustworthiness’ or ‘truth value’ of the data is established through persistent observation, thick description and dependability (Lincoln & Guba, 1985). The study design analysing a combination of theories, ie, psychic distance and opportunity perspectives, to explain a complex phenomenon of entrepreneurial internationalization decision drivers, relates to a triangulation for theoretical completeness (Jick, 1979). Thick description was obtained from in-depth persistent engagement protocol of the entrepreneurs on specific internationalization events, affording multilevel and complex articulation, for instance, of intention to enter a foreign market despite psychic distance concerns as shown in the results section below. The main strength of dependability and triangulation was obtained from the draft coding being checked back with the respondents as ‘member checks’ and with their own scoring on the scale. This, on the whole, ensured ‘truth value’ or trustworthiness of the qualitative data that were reduced and analysed. Following

Eisenhardt's (1989) and Eisenhardt and Graebner's (2007) advice, this cross-case analysis design seeks to balance a mass of verbal data or "stories" and theory building analysis. It uses "extensive tables and other visual devices that summarize the related case evidence" signalling the depth and detail of the empirical grounding of the research, and finally summarizes the evidence with "construct tables" and graphical representations. Quantification of the relationship through the construct tables and the graphs indicate how the focal construct of opportunity-distance quotient as a ratio of opportunity and psychic distance perceptions came about, increasing the testability of the theoretical propositions (Eisenhardt & Graebner, 2007: 29).

Formalism Development for Coding Data

The verbal data from the entrepreneurs were transcribed verbatim. The nVivo software suitable for small sample qualitative data analysis and recommended in Sinkovics, Penz, & Ghauri (2008) was used for data coding according to a formalism representing a 5-point scale described below.

While the data for opportunity perception lent more directly to a gradation, the data representing psychic distance perception was more complex. For coding the psychic distance perception data, a graded formalism or coding scheme was developed by using the overlap between data collection and analysis, following Eisenhardt's (1989) recommendation, with the lowest end of the scale for psychic distance for a foreign market representing those responses that expressed no difficulty or little difficulty in doing business in that market or expressed keenness to enter the market or continue to do business there and foresaw no problems. Factual arguments like product related reasons or profit repatriation rules in a country at the time were cited and emotional remarks were also made with regard to foreign market entry. The emotional or psychologically based reasons of difficulty were considered to express a high level of psychic distance, a psychological perception, while the factually based reasons were considered to denote medium psychic distance perception. This helped in building the formalism as a hierarchy to code for psychic distance with the following spread: 1) No difficulty expressed, or little difficulty that were mentioned as easily surmountable, in engaging with a foreign market was given a 'low' psychic distance perception; 2) factually based difficulty expressed in engaging with a foreign market that were known but could be difficult to surmount was judged as 'medium' psychic distance perception; and 3) psychologically based difficulty in engaging with a foreign market expressed with emotion was taken to indicate a 'high' psychic distance

perception. The ‘medium’ level was less straightforward compared the ‘low’ or ‘high’ levels, and included expressed difficulties such as costs or skills availability and language.

Some of the responses appeared to reflect intermediate level concerns and were given intermediate scores, ie, medium-low between ‘low’ and ‘medium’ psychic distance perceptions, and medium-high between ‘medium’ and ‘high’ psychic distance perceptions. These intermediate responses were a mixture of two of the three main types, i. e., a response that gave factually based reasons but did not see it as a problem or saw it as manageable with some effort would be assessed as ‘medium-low’. Similarly, a response that was emotional as well as that gave factually based reasons for the difficulty perception would be assessed as ‘medium-high’. Cultural difference has been the major preoccupation of many internationalization theorists. In this study, responses that expressed difficulties based on unfamiliarity with the foreign country’s culture - whether market practices or societal beliefs - were interpreted as representing lower intensity of concern than an emotional response but higher concern than factually based difficulties expressed and hence assessed as ‘medium-high’. The verbal data that were assessed against these five levels of psychic distance perception were later compared against the entrepreneurs’ own scores as mentioned earlier.

DATA, ANALYSIS AND RESULTS

Data obtained are highly informative when seen in light of macro-environment particularly at the time the study was conducted, in 2006. It is pertinent that normal international business and conducive commercial conditions prevailed in 2006, before the widespread financial downturn in 2007-08 from which markets considered in the study are still recovering. The study, therefore, does not suffer from explanations attributable to extra-ordinary macro-economic conditions prevailing, and conducted in normal global economic environment. The sections below present a cross-case analysis, following Eisenhardt (1989), highlighting responses of the six entrepreneurs. The results are first summarized leading to emergent theoretical constructs in “construct tables” and graphs. A substantial overlap between data collection and data analysis occurred as meaning was derived from multiple case data through replications, contrasts and extensions to the emergent theory (Eisenhardt, 1989; Yin, 2009). The results for China are presented and analysed first in detail illustrating the nuances of the verbal protocol and analysis. Data for the other three markets are more briefly presented heeding Eisenhardt and Graebner’s (2007) caution that in presenting much qualitative data “theory is lost and the text

balloons” necessitating a stories-theory trade-off within the spatial constraints of a journal article (Eisenhardt & Graebner, 2007: 29).

Data on China

The entrepreneurs’ responses for China varied widely, ranging from admiration for a rapidly rising market and willingness to do business there to strong distrust. Two entrepreneurs out of the six were certain they would not venture into China but for different reasons while the others would engage with China.

Will-E2 had worked in the South East and expressed eagerness to ‘take a shot at’ China market - “new market like that .. would be a huge leg up”. He is assessed to display a low level of psychic distance perception for China. His opportunity perception for China is assessed at a ‘high’ level as he thinks the Chinese could soon be using his product to do forex trading (“smart at trading” “they do it through Hong Kong”). In contrast, Bob-E4 said “Not worth investing there ... its not a level playing field (referring to government support for local companies and restrictions for setting up business as a foreigner)”. He expresses his difficulty on a psychological level: “They are a bunch of (uses expletive) aren’t they” and is assessed as ‘high’ for his psychic distance perception for China. He also thinks the opportunities for his field, ie, high-speed ion beam systems for electromagnets are “not there”, so his opportunity perception for China is assessed as ‘low’ (see Table 1: China data).

Merton-E1, on the other hand, expressed his difficulty with doing business in China in terms of the cost “...language is very important in the software business for technical reasons” and “it is terribly difficult if... dealing with another language and culture”. His psychic distance perception was thus assessed as ‘medium-high’. However, while his firm did not yet have the skills/ resources to enter China, Merton-E1 said that might change as the market was “getting big”. His opportunity perception thus was also assessed as ‘medium-high’ (see Table 1 below).

Martin-E5 expressed no intention of going to China (“don’t know, don’t understand the Chinese”) and is assessed as perceiving a ‘high’ level difficulty or psychic distance. Though the “market may be rising” he does not see prospects for his product and thus was assessed as perceiving a ‘low’ level of opportunity in China. However, a ‘member check’ with his own assessment changed opportunity perception to a ‘medium-low’.

Rubin-E3’s perception about China was more complex. He was diffident about going it alone in China, or anywhere else, and managing the cultural differences (“the Chinese culture is

too different”). But he is confident about doing business in China in partnership, to tap what he calls a great opportunity, and has been doing so for several years. His psychic distance perception for China is assessed at a higher than medium level, at ‘medium-high’. His opportunity perception is taken to be ‘high’ for China. Mark-E6 has an Asia-pacific focus scouting for business in Hong Kong, Indonesia and India (“we are in the region”) but, unlike Rubin-E3 and Will-E2, would not go to China just yet as “profits are not repatriable just now” despite being upbeat about opportunity there. His opportunity perception for China is assessed to be higher than medium, ie, medium-high, and psychic distance at a medium level. The psychic distance and opportunity perception on China assessed from the verbal responses and matched with the entrepreneur's’ own scores are summarised in Table 1 below.

Table 1: China difficulty / psychic distance (PD) and opportunity data excerpts

	Psychic distance perception			Opportunity perception	
	Gist of verbal responses	Nature of difficulty assessed	Assessed PD	Gist of verbal responses	Assessed opportunity
E1	Language difficulty related to product manuals “very important”. “Terribly difficult if...dealing in another language, culture... you are dealing blind”.	Factually based and culture difference based difficulty expressed	Medium-high	Presently lacking resources. That (ie, not focusing on China) might change. The market is getting big	Medium-high
E2	Worked in South East. Would like a shot at a new market like China	Little difficulty envisaged	Low	Would be a huge leg up (to get into China). Chinese are smart at trading.	High
E3	“the Chinese culture is too different”; Must have a Chinese partner.	Factually based and culture difference based difficulty expressed	Medium-high	“.. to tap into the great opportunity there”	High
E4	“They are a bunch of (expletive)... not a level playing field”	Psychologically based difficulty expressed	High	Ion beam systems market “not there”	Low
E5	“Don’t know, don’t understand the Chinese”	Psychologically based difficulty expressed	High	“the market may be rising” but lacking opportunity	Medium-low
E6	Waiting and scouting to start business. “Profits are not repatriable just now”	Factually based difficulty expressed	Medium	“We are in Asiapac.” and scouting: “we are looking”	Medium-high

Thus the levels of psychic distance perception assessed for China differ across the six entrepreneurs’ as expected in the literature with some entrepreneurs explicitly expressing no intentions of entering the China market (E4, E5). Their opportunity perceptions are also found to be different for the same foreign markets. The data for opportunity and psychic distance perception are later translated to a numerical equivalent on a 5-point scale from Low (1) to High (5) for further interpretation.

Data on the USA, UK and Australia

New Zealand, with a predominantly Caucasian population, is generally considered psychologically close to both the US and the UK with the UK favoured over the US due to familial ties (MFAT, 2013). With Australia, their nearest developed country neighbour, New Zealand has had close economic and political ties (ANZCERTA, 1983).

In the entrepreneurs’ responses an unease and an underlying issue with trust was expressed about the US market but not with respect to the UK. Most of the entrepreneurs doing business with the US have either expressed higher uncertainty of outcome in business dealings or a lack of trust in the US market. While E4 and E5 expressed a low level and E3 a medium-low level of psychic distance for the US, the three others showed medium ((E1), medium-high (E2) and a ‘high’ level (E6). The Australian data had some responses expressing Australia being a difficult market for NZ products (E6) but were otherwise straightforward and so were those of the UK.

The verbal responses for the US, UK and Australia were coded and analysed in the same way as the China data. However they are not discussed here in the same detail to keep the description succinct while ensuring control over the stories-theory trade-off advised by Eisenhardt and Graebner (2007). Tables 2, 3 and 4 below capture the most important excerpts from the verbal responses in the data for the US, the UK and Australia.

Table 2: USA difficulty / psychic distance (PD) and opportunity data excerpts

	Psychic distance perception			Opportunity perception	
	Gist of verbal responses	Nature of difficulty assessed	Assessed PD	Gist of verbal responses	Assessed opportunity
E1	Difficult patent practices, but can manage threat of litigation by water-tight agreements	Factually based difficulty expressed (can manage threats)	Medium	Does most business with the US. “Big market”	High
E2	First entry failed “US licence holder withdrew (from proposed JV) and is still using my IP in the product we jointly developed ...”, More careful (“ruthless”) now.	Between factual and psychologically based difficulty expressed	Medium-High	Stationed himself in US to penetrate market there	High
E3	Comfortable in the US but has project wise local partners	Between ‘no difficulty’ and ‘factually based difficulty’	Medium-low	Long business in the US	High
E4	“They’ll pay a decent price”	Has no difficulty	Low	Happy with doing most business in US and Japan	High
E5	Went first into the US. Great exposure through Microsoft (even though the venture failed).	Envisages little difficulty through right channels	Low	Big market through channels	High
E6	“Hate the US .. too litigious”	Psychologically based difficulty expressed	High	Don’t intend going there. “No honeymoon expectations”	Low

Table 3: UK difficulty / psychic distance (PD) and opportunity data excerpts

	Psychic distance perception			Opportunity perception	
	Gist of verbal responses	Nature of difficulty assessed	Assessed PD	Gist of verbal responses	Assessed opportunity
E1	No difficulty as “we know the way the British work”	No difficulty	Low	Not main focus. Maintains UK office for European mandates	Medium-high
E2	Know the UK. I’ve worked there too	No difficulty	Low	“Havn’t gone with this business but there should be good forex market with the financial centres in London and Europe”. E2 focusing on the US now.	High
E3	“No problem but time difference becomes difficult.... like with France”	Mild factual level difficulty expressed	Medium-low	“Have done some work with English naval architect and a Scandinavian owner. We keep a track of the UK as traditional leader in Europe for pleasure boats”	High
E4	No barriers of language or culture	No difficulty	Low	“We are too busy in the US and Japan. Yes there is a market. Will be ready when UK buyers are”	Medium-high
E5	No difficulty envisaged. “Kiwis are comfortable with things English”	No difficulty	Low	If we hadn’t got stuck with US we might have gone to UK. Could be our next target”	Medium-high
E6	No difficulty culturally but poor market feeds buyer reluctance. “I’m not sure that market will be welcoming like Australia wasn’t at first”	Mild difficulty comparing Australian experience.	Medium-low	“Europe has had its day. Its Asiapac now”.	Medium-Low

Table 4: Australia difficulty / psychic distance (PD) and opportunity data excerpt

DISCUSSION

Summary

	Psychic distance perception			Opportunity perception	
	Gist of verbal responses	Nature of difficulty assessed	Assessed PD	Gist of verbal responses	Assessed opportunity
E1	“I don’t call (going to) Australia international”	No difficulty	Low	“Lighthouse customers are in the US... (but) market exists (in Australia)”	Medium-high
E2	“No problem working in Australia.. you just need a network”.	E2 is involved with a telecom project in Australia and finds it “ok”	Low	“Australian forex market itself hasn’t been so attractive for me .. I’ve been busy in the US”	Medium
E3	Often does business in Australia. Presently designing of an unorthodox yacht being built in Australia but “won’t be over-confident”	Mildly cautious (as E3 is in “any foreign market”) but does not need a strong local partner	Medium-low	“US, South America now, then Australia – in terms of ownership of yacht orders”	Medium-high
E4	We’ve found no problem with doing physics business there	No difficulty	Low	“There is business....We are now doing business with university (Physics) labs in Australia”	Medium-high
E5	“Australia is fine – they know New Zealanders”	No difficulty	Low	“When the chance comes... we’re not pushing Australia.. there are better markets”	Medium-Low
E6	E6 sees similarities but “Aussies don’t buy from Kiwis”. First Australian entry failed. He now “disguises” his online business with an Australian flavour. But “we have economic ties”.	Partly cultural difference attribution of difficulty, with positive ties. Good to enter, despite earlier failure with Kiwi manager	Medium	Sees Australia as a bigger market and natural destination after NZ. “Good expansion avenue for us”	Medium-high

The dispersion observed in the entrepreneurs' psychic distance perception for each foreign market include entrepreneurs expressing different psychic distance concerns spreading over the entire range from no concern to extreme concern both with regard to China as well as the US. Such finding is non-intuitive in traditional explanations of internationalization as the US and China are very dissimilar to each other with NZ much closer to the US than to China on Hofstede cultural distance dimensions (see Appendix 2), and thus consonant with current view that psychic distance varies individually and does not equate to country level differences of cultural distance.

An important finding was that some entrepreneurs, despite perceiving considerable psychic distance with a foreign market, still engaged or intended to engage with it indicating that they are not deterred by psychic distance and manage their psychic distance concerns in order to pursue international opportunity. This is as the entrepreneurial opportunity argument posits. For instance, three entrepreneurs felt medium to high psychic distance concerns in terms of difficulty of doing business with the US and still did a bulk of their business there. Rubin-E3 found it difficult to go it alone in China; he preferred to build trust in a partnership mode for doing business in China and, indeed, in any foreign market. He was not directed by psychic distance concerns in his choice of foreign markets to pursue. Rather, he found ways to manage psychic distance concern in his internationalization initiatives in markets where he perceived higher opportunity, through collaborative ways that Etemad *et al* (2001) highlight. Again, despite higher levels of psychic distance perception for China, Merton-E1 and Mark-E6 perceive sufficient opportunity there to enter that market in future; E1 after surmounting the difficulties of insufficient resources to overcome language obstacles and E6 when profit repatriation rules became more favourable. Merton-E1 expresses difficult IP regimes in the US – a traditionally familiar market to NZ entrepreneurs – with medium psychic distance perception but he is confident of managing US risks and does most of his foreign business there. Will-E2, having been 'cheated' once by his US partner is careful even "ruthless" in his subsequent US foray but continues to set up business there while confirming a medium high psychic distance perception for that market. Even with Australia, considered psychologically close by New Zealanders, Mark-E6 was explicit that it was not easy as "Aussies don't buy from Kiwis" with a "medium" level psychic distance perception, but was entering that market a second time, albeit more "cleverly", to exploit the opportunity he saw there.

The twenty-four data points representing the entrepreneurs' assessed psychic distance and opportunity perceptions for each of the four foreign markets are plotted in Figure 1 below.

Figure 1 – Perceived opportunity versus perceived psychic distance plot for China, US, UK and Australia. Numbers reflect Opportunity-Distance Quotient (ODQ): the ratio of opportunity and psychic distance perceptions

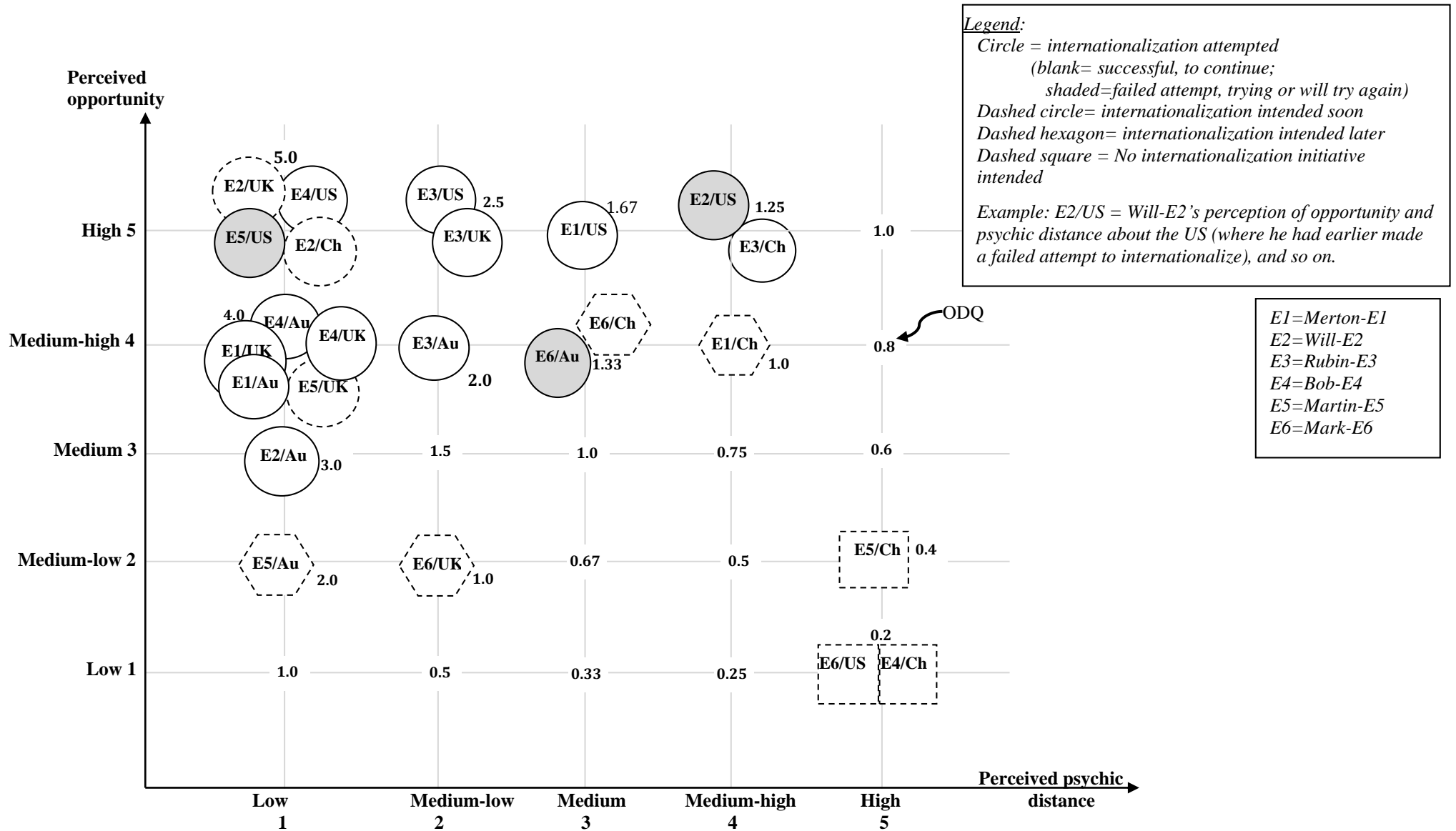


Figure 1 reflects the data as combinations of opportunity and psychic distance perceptions and relates them to entrepreneurial intention / action to enter a foreign market. The plots in the upper left corner of Figure 1 are more crowded as is expected for a high opportunity-low psychic distance perception combination. However, along the top band of high opportunity perception in Figure 1, the entrepreneurs' either already engage with or express willingness to engage with foreign markets across the entire range of low to high psychic distance perceptions. Psychic distance perception alone is thus inadequate to understand their propensity to engage in foreign markets. Further insight is obtained by specifically combining opportunity and psychic distance perception. Such a combination is proposed as 'Opportunity-Distance Quotient' or ODQ. Defined as a ratio of the Opportunity Perception score and Psychic Distance Perception score, ODQ relates well to the entrepreneurs' action in doing / intention to do business in the specific foreign markets. A higher-than-1 ODQ indicates entrepreneurial action/intention decision in favour of internationalization as data points above and away from the 45 degree ODQ=1 line show, while data points in the lower right corner denote clear intention against entry into the concerned foreign market with ODQ lower than 1 (Bob-E4 and Martin-E5 vis-a-vis China and Mark-E6 vis-a-vis the US). ODQ close to 1 but lying above the ODQ=1 diagonal reflected intentions to internationalize into those markets at a future time with some attempts - successful or unsuccessful – that may have been made in the past. Despite considerable psychic distance perceived Will-E2 and Rubin-E3 have engaged with the US and China markets respectively showing ODQ greater than 1 due to their high perceived opportunity. The points farthest away above the diagonal (maximum ODQ value greater than 1) show maximum propensity to engage with the foreign market, while those with ODQ less than 1 and farthest below the diagonal depict definite propensity to keep away from that market. Thus, the higher the ODQ the higher is the intention to engage. The simultaneous influence of opportunity and psychic distance

perception better explains entrepreneurial internationalization action / intention than either of them alone.

Different shapes of the data points in Figure 1 indicate whether an entrepreneur had made an attempt to do business in a specific foreign market, whether that attempt was successful or unsuccessful and whether the entrepreneur expressed an intention to do future business in that foreign market soon or at a later time. An interesting feature in the protocol is that, contrary to some literature, entrepreneur E3 with successful entry and continuing business in China does not express lower psychic distance than E2 or E6 that have no experience in that market, counter to received theory in internationalization literature. Failure experience also was shown to spur some entrepreneurs to attempt again as for Will-E2 with the US and Mark-E6 with Australia, despite continued higher levels of psychic distance. Thus the data also present a nuanced logic of the relationship between past success or failure and psychic distance perception, ie, past success (or failure) in a foreign market may not reduce (or increase) psychic distance perception but may engender learning of how to overcome perceived psychic distance. This is reflected in the ODQ and is a non-intuitive finding of the study.

Contributions to Scholarship: the ODQ Concept for Internationalization

This qualitative empirical study heeds assertions made in the literature of the importance of opportunity in entrepreneurial internationalization, along with psychic distance (Madsen and Servais, 1997; Crick and Jones, 2000; Shrader *et al*, 2000; Johanson and Vahlne, 2009). Its main contribution is its explicit consideration of the influence of opportunity perception together with psychic distance perception as a combined construct, ODQ, to explain entrepreneurial internationalization intention. The combined construct is depicted by the simple ratio of opportunity (O) and of difficulty or psychic distance (D) and

is found to anticipate the internationalization intention decision well across the six cases studied for the four foreign markets. While ODQ values considerably greater or less than 1 show entrepreneurial decisions in favour of internationalization or against it, the ODQ values near 1 show nuanced combination where higher psychic distance perception may still accompany internationalization intention due to high perceived opportunity rather than a withdrawal due to higher psychic distance perception alone. Thus, the ODQ conception captures how the entrepreneurs manage high psychic distance to pursue perceived opportunity and may help reconcile mixed results from earlier studies.

Psychic distance as an individual perception is also less prone to the ‘illusion of symmetry’ unlike cultural distance (Shenkar, 2001). Its consideration along with opportunity perception further clarifies its asymmetric nature, ie, of entrepreneurial propensity to engage with a foreign market without the symmetrical reverse propensity between pairs of markets with dissimilar characteristics. Internationalizing entrepreneurs from the US, for instance, are not likely to exhibit a propensity to engage with the New Zealand market as those from NZ country would with the US.

The ODQ concept also relates to similar conceptions in the entrepreneurship literature too as entrepreneurial action in general is an interaction of opposing forces of an opportunity perception and a distance perception of felt obstacle. Thus the combination of individual perceptions of opportunity and psychic distance parallels Krueger and colleagues’ construction of Shapero’s ‘entrepreneurial event’ model with desirability and feasibility perceptions as antecedents of entrepreneurial intention to act (Krueger & Brazeal, 1994; Krueger *et al*, 2000). The psychic distance and opportunity perceptions in the internationalization context mirror the feasibility and (the voluntaristic attitude of) desirability perceptions respectively, shaping the entrepreneur’s intention to engage.

A seemingly intuitive phenomenon in internationalization, ie, the inverse influence of

foreign market experience on psychic distance perception is not confirmed by the study. Entrepreneur E3 with long experience in the China market still expresses high psychic distance perception. Similarly for E1 in the US market. What is noteworthy is that E3 is highly aware of the limits to his ability to manage differences of home market with foreign markets – China or the US – and finds solutions through joint venture partnerships. The others do not express their willingness to do partnerships in any of the markets irrespective of what psychic distance or opportunity they perceived. This seems to point to a mediated rather than a linear relationship, ie, the confidence in being able to manage differences as mediating the relationship of the entrepreneurs' intention of business in the foreign market and their psychic distance/opportunity perception combination. This is an interesting question for further research.

Bringing the new concept of opportunity perception out of the background in international entrepreneurship literature and considering it explicitly along with psychic distance alters our understanding, and what Whetten (1989) calls our causal maps, of *how* entrepreneurial internationalization occurs. It makes an essential shift of focus from internationalization processes being explicated through psychic distance obstacles that constrain to a lens that sees opportunity as the primary driver of internationalization. It overcomes a static perspective to understand internationalization in a technology-enabled world today where entrepreneurs manage psychic distance to pursue opportunities with technology cutting across cultures (Hara & Kanai, 1994).

Applied Implications

The ODQ construct could also help explain psychic distance asymmetry where exporter/seller and importer/buyer assessments (of difficulty in doing business in the other's market) do not match (cf. Ellis, 2008). This understanding is highly relevant today when firms from dissimilar – emerging and developed - markets are increasingly engaged in search

of business opportunities (Ratten *et al.*, 2007). A major applied implication of the findings is that this study can inform policy. Government and trade bodies like chambers of commerce that endeavour to make foreign market opportunities visible to home entrepreneurs through exhibitions and trade delegations could take measures to reduce difficulty perception by exposing home entrepreneurs to the cultural and practice realities of those markets. Indeed, cultural exchange in early life through education policies can go far in encouraging higher ODQ.

Limitations of the study

The “opportunity-distance quotient” as a simple ratio has limitations. For instance, if foreign market experience, adjusted for managerial capability mentioned above, decreases psychic distance perception and at the same time increases opportunity perception in some settings, this will amplify the ODQ combination construct defined as a ratio. Thus, other mathematical combinations that may be superior but keep the essence of a combined construct could be explored.

One of the main limitations of the study exploring only six entrepreneurs is that of generalization, a common criticism against qualitative case studies. However, this study does not aim to derive a general theory but to explore new explanations of the phenomenon of entrepreneurial firm internationalization by examining entrepreneurs’ perceptions qualitatively. The study makes no definitive propositions, following Whetten (1989), as it investigates qualitative changes in the boundaries of received theory rather than quantitative expansions of theory. The proposed ODQ combination construct may, however, lend to further research in nuanced explanations of internationalization. Nevertheless, the small number of entrepreneurs remains a limitation of the study and researching a larger number should lead to stronger findings. Although the data show no pattern in prior experience influencing entrepreneurial action or intention to internationalize corroborating some of the

literature, the small respondent numbers in the study is problematic for definitive conclusion in this regard. To that extent, including in the study entrepreneurs with different experience levels in international activity, ie, expert and novice internationalizers with regard to a foreign market, may be a limitation particularly with small numbers in this exploratory study.

Future Research Directions

Internationalization decisions are better examined qualitatively as they are critical, strategic events in a firm that are not routine (Eisenhardt & Graebner, 2007; Lamb et al, 2011). The ODQ construct proposes a specific interdependence of opposing perceptions and extends small firm internationalization theory that could be tested in future research potentially through a survey instrument for a large sample study further validating the ODQ construct and creating a particularly strong bridge from the qualitative evidence to theory-testing research (Eisenhardt & Graebner, 2007: 29). Several further research avenues could be explored, e.g., a more complex interdependence relationship between opportunity and psychic distance perceptions than the simple ratio envisaged here; risk managing propensity or self-efficacy as mediating the simultaneous influence of psychic distance and opportunity perceptions on entrepreneurial internationalisation decisions; and, more extensive exploration of the influence of prior experience differences on psychic distance perception.

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APPENDIX 1

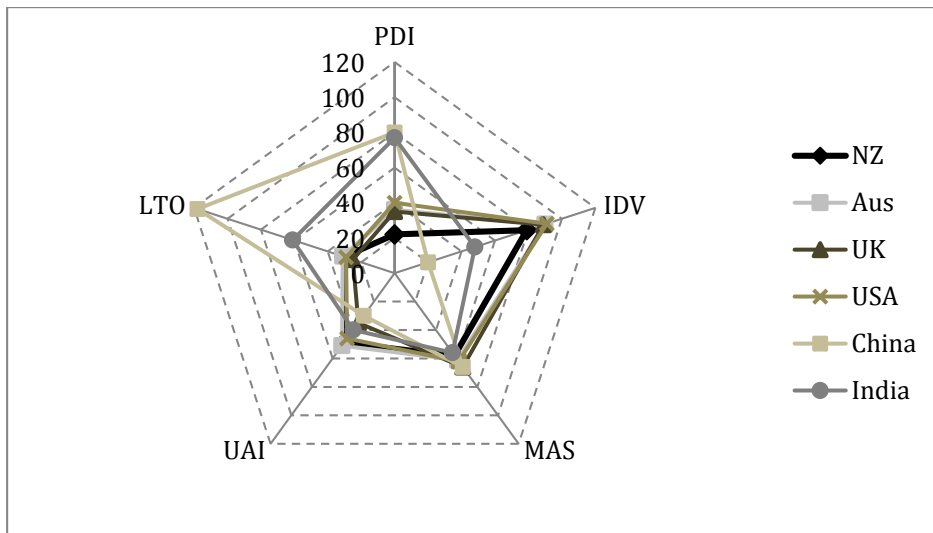
Profile of entrepreneurs (pseudonyms) and of their firms

Entrepreneur	Activity (with foreign markets where business was attempted earlier)	Firm set up in	Export intensity	Employee numbers
Merton-E1: owner partner, age 37	Data warehousing software (Australia/UK/US)	1995	Over 70%	28
Will-E2: owner, age 38	Forex trading software (US/Aus)	2003	Approx 50%	7
Rubin-E3: owner partner, age 49	Engineering design of boats, yachts (Australia/UK/US/Europe/China/Thailand/South America)	1982	Over 80%	52
Bob-E4: owner, age 56	Precision electromagnet and ion beam implant system (Australia/UK/US/Japan/ India)	1977	Over 95%	147
Martin-E5: owner partner, age 39	Document automation software (US)	1993	Over 50%. Reducing business	6 and winding down
Mark-E6: owner, age 40	Full range internet and hosting service (Australia)	1992	30% (down from 50%)	28

APPENDIX 2

Scores for New Zealand against China, Australia, the UK and the USA on the Five Hofstede Cultural Distance Dimensions: PDI, IDV, MAS, UAI and LTO

PDI = Power Distance
IDV = Individualism
MAS = Masculinity
UAI = Uncertainty
Avoidance
LTO = Long term
orientation



Spider chart drawn from data extracted from The Hofstede Centre (<http://geert-hofstede.com/countries.html>)

